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Veröffentlichungsversion / Published Version  
Zeitschriftenartikel / journal article

#### Empfohlene Zitierung / Suggested Citation:

Clark, S. (2008). A basic income for Russia? *AVINUS Magazin*. <https://nbn-resolving.org/urn:nbn:de:0168-ssoar-251235>

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# A Basic Income for Russia?

**Simon Clarke**

## Introduction

The idea of a basic or citizens' income rests on the principle that everyone is entitled to the resources which make possible at least a minimum standard of subsistence. This principle is well-established in those countries, particularly in Europe, with a developed welfare state tradition, although its implementation, even in those countries, is surrounded by qualifications centered on the obligation of able-bodied citizens to work and the restriction of public assistance to those who can prove their need for support, which are monitored by an enormous inhuman and incompetent bureaucratic apparatus of inspection, regulation and control. Moreover, the solidaristic welfare tradition is being eroded by individualistic approaches to welfare provision based on compulsory or voluntary, state or private insurance principles.

Discussion of proposals for a basic income has tended to concentrate on the richer countries with a developed welfare state, but in many respects such proposals are most relevant for countries which have undergone structural adjustment under the impact of their subordination to the competitive pressures of the capitalist world market. Structural adjustment has provided new opportunities for some, but has created massive inequality as it has deprived large sections of the population of their basic sources of subsistence, while pressure on government finances has eroded such systems of welfare provision as previously existed. Nowhere has this impact been more dramatic than in the countries of the Former Soviet Union, which previously enjoyed more or less full employment and a comprehensive system of social welfare, but where GDP, employment, wages and welfare benefits have declined precipitately.

Proposals for a basic income are frequently condemned as being impractical on grounds of cost. But a basic income is only an extension of the basic welfare principle of providing benefits which guarantee a minimum level of subsistence for those not able to achieve such a level by their own efforts. The provision of such categorical benefits has come under increasing pressure over recent decades on the grounds of their excessive cost and the fact that universal provision means that benefits are provided to those who do not need them. In this paper I provide a simulation of the cost and impact of the provision of a range of universal benefits in the Russian Federation. While these do not in themselves constitute a basic income, their cumulative impact approaches that of a basic income system.

## The Pauperisation of Russia

In common with the other state socialist countries, Soviet Russia had an official 'minimum consumer budget' which defined the socially acceptable minimum standard of living and was used initially for the assessment of need-related child benefit payments and later as a guide in defining the minimum wage and minimum pension. This amounted to 50 roubles per head per month when it was introduced in 1975, increasing to 75 roubles in 1985. This was about half

the average income per head, and so corresponded to the commonly accepted standard for a relative poverty line. According to this standard, between 16% and 25% of the population fell below this poverty line on the eve of reform, with poverty rates about twice as high in the countryside as they were in the towns. Poverty was already on the increase by 1989, with some research indicating that standard wage-earning families were beginning to fall into poverty, where before poverty had largely been confined to the 'traditionally poor': large and single-parent families, the disabled, single pensioners.<sup>1</sup> It was already apparent in 1992 that a new poverty line was required as a basis for the development of a realistic policy of social protection. The new subsistence minimum was drawn up, with international assistance, as the level of monetary income which was sufficient for physiological survival in crisis conditions, which was a reduction of about a third of the previous minimum. Different minima were defined for young and older children, male and female adults and male and female pensioners. The subsistence minimum income was sufficient for food and everyday necessities (subsidized housing, fuel, energy and communal services), but not sufficient for the repair or replacement of any durable items, including clothing, furniture, household equipment and so on.<sup>2</sup> For this reason, and because of the structure of prices at the time, food takes up a substantial proportion of the subsistence minimum. Although devised as an emergency measure, in the expectation that it would be revised in future, this has become the standard Russian poverty measure and child, adult and pensioner subsistence minima are now calculated separately for each Russian region according to a common methodology defined in 1999 on the basis of the Federal Law No 134 'On the Subsistence Minimum in the Russian Federation' of 24 October 1997.

According to official data, between 1990 and 1999 GDP in Russia fell by half and average real wages by two-thirds.<sup>3</sup> Not only did average wages fall precipitously, but wage inequality increased dramatically, with the Gini coefficient for wages increasing from an estimated 24 in the soviet period to 45, so that by 1999 42% of employees earned a wage that fell below that required to provide for the basic subsistence of one working adult, to say nothing of contributing to the subsistence of any dependents. Moreover, many of these employees were paid nothing at all – in February 1999 21 million employees were recorded as being owed a total of 76 billion roubles (US\$14 billion at PPP) in unpaid wages, while RLMS reported that in November 1998 two-thirds of working age adults was owed wages, with 40% suffering delays of more than three months.<sup>4</sup>

By the mid 1990s the share of money income of the lowest income quintile had fallen to 6% from 10% before the crisis, while the share of the top quintile had increased from 33% in 1990 to 48% in 1999. According to (generous) official data, 29% of the population had a money income below the official subsistence minimum in 1999, while RLMS estimated that in November 1998, 38% of households had incomes (including a generous estimate for the value of home-grown foodstuffs) below the poverty line.

At the same time as household incomes collapsed, the real value of social guarantees and welfare benefits was rapidly eroded by inflation. By 1999, the minimum wage and the social pension had fallen to 10% of the relevant subsistence minima, while child benefit had fallen to 7% of the subsistence minimum for a child. The stipend for students in higher education amounted to 19%, and for students in technical schools to only 7% of the subsistence minimum.

## Russia on the Road to Prosperity?

Following the devastation wrought by the 1998 financial crisis, the Russian economy has begun to grow at an average of 6.7% a year in real terms over the period 1999-2003. However, the benefits of growth have not been shared equally among the population. There has been no significant change in the degree of inequality. According to official data, in April 2002 more than a third of employees still earned less than the adult subsistence minimum. In May-June 2003 the NOBUS survey found that 42.5% of wage-earners earned less than the subsistence minimum, but at least the problem of non-payment of wages had declined to half the level reported in 1999, with Goskomstat reporting that 6 million employees were owed a total of 24 billion roubles on 1 January 2004 (about US\$2.4 billion at PPP). According to the NOBUS data, 16% of wage earners still experienced wage delays in the middle of 2003 but, although some people reported long delays, for half of those in arrears the delay was only one month. RLMS reported that in October 2003 20% of working-age adults were owed wages, but for 71% the delay was two months or less.

According to the official data, 20.6% of the population had a money income less than the subsistence minimum of around 2.33 USD a day (around 7.07 USD at PPP exchange rate) in the last quarter of 2003, while the more generous RLMS found only 13.1% of households living below the poverty line at the same time. However, our calculations from the NOBUS survey data find 45% of households reporting money incomes below the subsistence minimum in May-June 2003, with 12% living on less than half the money required for basic subsistence. In their subjective assessments, 11% of household heads said that they did not have enough to buy food, while a further 55.3% said that they had enough to buy food but it was difficult to buy clothing and shoes.

The Russian government has not taken advantage of GDP growth and the huge windfall from rising oil prices to raise social guarantees and welfare benefits substantially. According to the new Labour Code adopted in 2001, the minimum wage should be increased in stages to the level of the subsistence minimum, but by the end of 2003 it still amounted to only a quarter of the subsistence minimum. The minimum pension had reached a third of the subsistence minimum, while child benefit had collapsed further, amounting to 70 roubles a month, only 3.3% of the child subsistence minimum. Not surprisingly, the incidence of poverty among children is far higher than among the general population, with three-quarters of all children living below the poverty line in 2003, according to the NOBUS data.

## The cost and impact of a basic income for Russia

In this section I will simulate the cost and impact of a series of policies which together approximate to the introduction of a basic income.

### Data

This simulation is based on data from the 2003 NOBUS survey, which was financed by the World Bank and conducted in May and June 2003 by the Russian State Statistics Committee. The survey was administered to a representative sample of almost 45,000 households drawn from all the regions of the Russian Federation, apart from the Chechen Republic.<sup>5</sup> The survey included detailed questions on income sources for individual household members and for the head of the household. The reported response rate to questions on individual incomes was

very high, less than 1% being recorded as not knowing or refusing to answer in the case of each individual item, although no wage was recorded for 2.6% of wage earners. However, those not working for a wage, who amount to about 6% of those working, were not asked to estimate their employment or entrepreneurial income. In 2.4% of households no members reported any sources of income at all, despite any recorded refusals to answer.

For this reason data on income components has been estimated from the responses of individual household members, while total household income is based on the higher of the sum of the incomes reported by all individual household members and the total household income reported by the head of household. In 28% of cases the head of household was unable to report the total income, but he or she was asked to estimate which of 14 income categories it fell into (not surprisingly, larger households, particularly those with more working members, were slightly but significantly less likely to report the household income). In this case the household income has been estimated as equal to the median income of those respondents who reported their household income in each income group.<sup>6</sup> This procedure gives a household income for 99.9% of households, with only 0.1% reporting zero income. No estimate has been made of the monetary value of food grown for home consumption, partly because the data is insufficient to do this, but also because previous research has shown that the value of the produce of domestic plots barely covers the monetary outlays for their cultivation and that urban households who grow their own food spend no less on food than do households who do not do so.<sup>7</sup>

No account has been taken in these estimates of the non-payment of wages and benefits, which are a much less acute problem than during the late 1990s. Calculation of the impact and cost of the various policies has been based on the assumption that wages and benefits due have actually been paid. As noted above, 16% of wage earners in this data set experienced wage delays but for half of those in arrears the delay was only one month. One third of the very small number of people eligible for unemployment benefits suffered delays in their payment, but fewer than 10% of those on maternity leave suffered delays in payment and only 7% of the miserly child benefits were paid with a delay, the payment of the majority of both of these benefits being delayed by two or three months. It is not possible from the data to make reliable estimates of the amount of wages and benefits due.

The poverty lines for each household are defined by the adult, pensioner and child subsistence minima for each region for the last quarter of 2003 (this is on average 0.3% higher than at the time of the NOBUS survey), with the child subsistence minimum applied to children under 16, the adult subsistence minimum applied to working adults between the ages of 16 and the normal pension age (55 for women and 60 for men), and the pensioner subsistence minimum applied to non-working adults and to those over the pension age, whether or not they are working.

## Simulation

For this simulation we estimate the cost and impact on poverty of the following benefits:

- A regional minimum wage sufficient to provide the regional adult subsistence minimum for a normal 40-hour week (170 hours a month). This is an average rate of 13.77 roubles (about US\$1.40 at PPP) an hour.

- A minimum pension for all those over retirement age equal to the regional pensioner subsistence minimum (an average of US\$ 165 a month at PPP). In 2003 the minimum pension

was 522 roubles (US\$53 at PPP) a month. In the NOBUS data just under half the existing pensioners receive less than the pensioner subsistence minimum.

--Benefit paid to all of those working-age adults not working for whatever reason, equal to the regional pensioner subsistence minimum. This replaces all existing benefits paid to adults of working age: unemployment benefit, student stipends, child-care benefits (but not one-off maternity benefit), invalidity benefit and pensions paid to those below the normal pension age as well as social assistance. If this benefit were paid at the rate of the adult (working) subsistence minimum the cost would increase to 5.1% of GDP without a proportionate impact on poverty. Note that social assistance, which is supposed to be rigorously means tested, is so poorly targeted that it has no impact on the poverty distribution. Almost half the meagre social assistance is paid to households who are not in poverty.

-Child benefit paid for all children under 16 at the level of the regional child subsistence minimum. Child benefit in 2003 was 70 roubles a month (double for single parents).

--A top-up benefit to guarantee the adult subsistence minimum for all those working. The hourly minimum wage only guarantees that wage-earners who work 170 hours a month will reach the minimum wage. The top-up benefit ensures that those who work shorter hours, or those who are in self-employment, will also enjoy the minimum income. This benefit is calculated as the adult subsistence minimum, less the earnings declared in all forms of employment, or that would be earned at the minimum wage. The cost of this benefit is exaggerated to the extent that earnings were undeclared in the survey (this particularly relates to entrepreneurial income). It would also be administratively unwieldy, but is included because it indicates the cost of moving to a full basic income.

Table 1 shows the impact on poverty and the estimated cost, as a proportion of GDP, of these benefits taken separately and cumulatively. As can be seen from the table, the cost of each of the benefits is directly related to their impact on poverty, as might be expected. More striking is the fact that, contrary to the arguments put forward endlessly by the opponents of categorical benefits, the impact of all of the benefits is strongly weighted to the bottom of the income scale. None of the benefits increases the proportion of households with a comfortable income, more than twice the subsistence minimum, by more than one percentage point. All the benefits taken together constitute the equivalent of a basic income and eliminate poverty completely, while only raising 6% of the population into the comfortable category.

The cost of the proposed reforms is by no means excessive, amounting in total to 9.5% of GDP, roughly equivalent to some estimates of the annual capital flight from Russia. Most of the cost would fall on the government budget, since a large proportion of those paid less than the minimum wage are government employees, and would imply a substantial increase in government spending. Government expenditure at all levels in Russia in 2003 amounted to only 29.8% of GDP, whereas government spending in the European Union amounts to 48.5% of GDP, in Poland it amounts to around 45% and even in Ukraine it amounts to around 36% of GDP. However, the Russian government has serious difficulty in raising revenue to cover its meagre spending, and the cost of these benefits could certainly not be funded from a tax on personal incomes, which are so low that the tax would have to be set at a rate of about 2/3 of household income above the subsistence minimum.<sup>8</sup> Alternatively, the cost of the proposed reforms amounts to less than two years' GDP increase at current rates of growth. The Russian government is committed in principle to raising the minimum wage and welfare benefits gradually to combat poverty, but in practice the necessary increases have regularly been postponed.

Of course there are other claims on the government budget. In particular, health and education have suffered from chronic under-funding, with Russia spending less on them than any other country in Europe, and are in deep crisis. However, the introduction of the measures outlined here, leading to a basic income, would also help alleviate the crisis in health and education, since more than half their employees earn less than the proposed minimum wage, and they constitute a quarter of all those whose earnings would be increased by the introduction of such a minimum wage.

In conclusion, this simulation allows us to say with some confidence that it is perfectly realistic to envisage the introduction of a basic income to Russia, perhaps through the transitional procedure of progressively raising the minimum wage and welfare benefits, including benefits for non-working adults, towards the subsistence minimum over a period of a few years. All that is required is the political will to do so.

Table 1: Cost and Impact of Minimum Wage and Welfare Benefits on Incidence of Poverty

Percentage distributions	Existing income	With minimum wage	With minimum pension	With non-working benefit	With child benefit	Short time working benefit
Cost (% of GDP)		3.0	1.2	3.1	4.1	0.2
Acute Poverty	12	6	11	5	6	11
Poor	33	32	23	31	32	33
Surviving	42	48	52	50	49	43
Comfortable	13	15	14	14	14	13
	100	100	100	100	100	100
Cumulative Impact of Benefits			Minimum wage + Pension	+ non-working benefit	+ child benefit	+ Short time benefit
Cost (% of GDP)	32.8	3.0	4.2	5.3	9.2	9.4
Acute Poverty			5	1	0	0
Poor			21	14	2	0
Surviving			58	67	79	81
Comfortable			16	17	19	19
			100	100	100	100

-- Poverty groups are defined by the household money income in relation to the regional poverty line (subsistence minimum).

-- Household money income below half the regional poverty line

-- Household money income above half but below the regional poverty line

-- Household money income between the subsistence minimum and twice the regional poverty line

-- Household money income more than twice the regional poverty line



## Notes

- <sup>1</sup> Clarke, S "Poverty in Russia". *Problems of Economic Transition*. no. 42, 5, M.E. Sharpe, Armonk, NY, September 1999, pp. 5-55.
- <sup>2</sup> According to Mroz and Popkin, 'this new line was set 5-10% higher than would have been the case if Western dietary guidelines had been adopted' (see: Mroz, T./Popkin, B.M.: "Poverty and the economic transition in the Russian Federation", in: *Economic Development and Cultural Change*, no. 44, pp. 1-31).
- <sup>3</sup> All data is from Goskomstat Rossii unless otherwise specified.
- <sup>4</sup> Mroz, T.A./Henderson, L. et al.: "Monitoring Economic Conditions in the Russian Federation: The Russia Longitudinal Monitoring Survey 1992-2003". Report submitted to the U.S. Agency for International Development, Carolina Population Center, University of North Carolina at Chapel Hill, North Carolina, April 2004.
- <sup>5</sup> Technically the NOBUS survey is probably inferior to that conducted by RLMS, but it has a much larger and an All-Russian sample and in principle provides more comprehensive relevant information. It is far from perfect, but it is probably the best data that is available. A simulation based on the RLMS data on a comparable basis does not produce radically different results.
- <sup>6</sup> In two-thirds of cases the household income reported by the head of the household is within 20% of the sum of incomes reported by individual household members, although the latter tends to be a little higher, partly because the individual data used relates to the amount of wages and benefits due, while the household data relates to money received. In households with members who are entrepreneurs or self-employed, who were not asked to report their individual incomes, the income reported by the household head is much higher than the sum of individual reported incomes, and the more so the more such members there are in the household.
- <sup>7</sup> Clarke, S./Alasheev, S. et. al.: "The Myth of the Urban Peasant". *Work, Employment and Society*, no. 14, 3, September, 2000, pp. 481-99; Clarke, S.: *Making Ends Meet in Contemporary Russia: Secondary Employment, Subsidiary Agriculture and Social Networks*. Cheltenham: Edward Elgar 2002.
- <sup>8</sup> According to Goskomstat data, wages constitute around 46% of GDP, but this includes an estimate for 'hidden wages' amounting to a total of 11% of GDP. There is no evidence that concealed wages are so large and this item is best regarded as an error term introduced to reconcile the national accounts, which are inflated on the expenditure side by a massive estimate for savings.